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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of)
)
Application by BellSouth Corporation,)
BellSouth Telecommunications, Inc., and)
BellSouth Long Distance, Inc., for)
Provision of In-Region, InterLATA)
Services in South Carolina)
)

CC Docket No. 97-208

EVALUATION OF THE
UNITED STATES DEPARTMENT OF JUSTICE

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Summary of Evaluation

BellSouth's application to provide in-region interLATA service in South Carolina should be denied.

Applications under section 271 should be granted only when the local markets in a state have been fully and irreversibly opened to competition. This standard seeks to ensure that the barriers to competition that Congress sought to eliminate in the 1996 Act have in fact been fully eliminated and that there are objective criteria to ensure that competing carriers will continue to have nondiscriminatory access to the facilities and services they will need from the incumbent BOC.

At this time, BellSouth faces no significant competition in local exchange services in South Carolina. Lacking this best evidence that the local market has been opened to competition, the Department cannot conclude that its competition standard is satisfied unless BellSouth shows that significant barriers are not impeding the growth of competition in South Carolina. BellSouth has not done so in this application.

BellSouth has failed to demonstrate that it offers access to unbundled network elements in a manner that allows requesting carriers to combine such elements in order to provide telecommunications service, as required by the 1996 Act.

It has also failed to demonstrate its ability to provide adequate, nondiscriminatory access to the operations support systems that will be critical to competitors' ability to obtain and use unbundled elements and resold services.

It has failed to demonstrate that it offers cost-based prices for unbundled network elements that permit entry and effective competition by efficient competitors.

And, it has failed to measure and report all of the indicators of wholesale performance that are needed to demonstrate that it is currently providing adequate access and interconnection and to ensure that acceptable levels of performance will continue after section 271 authority is granted.

Competitive benefits in markets for interLATA services do not justify approving this application before BellSouth's local market has been fully and irreversibly opened to competition. BellSouth's estimates of the magnitude of those benefits rest on unconvincing analytical and empirical assumptions, but more importantly, its analysis fails to give adequate consideration to the more substantial benefits from increased competition in local markets that will be gained by requiring that local markets be opened before allowing interLATA entry.

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EVALUATION OF THE
UNITED STATES DEPARTMENT OF JUSTICE

The United States Department of Justice ("the Department"), pursuant to Section 271(d)(2)(A) of the Telecommunications Act of 1996 ("1996 Act" or "Telecommunications Act"),¹ submits this evaluation of the application filed by BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc. (collectively "BellSouth") on September 30, 1997, to provide in-region, interLATA telecommunications services in the state of South Carolina.

As the Department has previously explained, in-region interLATA entry by a Bell Operating Company ("BOC") should be permitted only when the local markets in a state have

¹ Pub. L. No. 104-104, 110 Stat. 56 (1996) (codified as amended in various sections of 47 U.S.C.).

been fully and irreversibly opened to competition.² This standard seeks to ensure that the barriers to competition that Congress sought to eliminate in the 1996 Act have in fact been fully eliminated and that there are objective criteria to ensure that competing carriers will continue to have nondiscriminatory access to the facilities and services that they will need from the incumbent BOC.

In applying this standard, the Department will consider whether all three entry paths contemplated by the 1996 Act -- facilities-based entry involving construction of new networks, the use of unbundled elements of the BOC's network, and resale of the BOC's services -- are fully and irreversibly open to competitive entry to serve both business and residential consumers. To do so, the Department will look first to the extent of actual local competition as the best evidence that local markets are open. The degree to which such entry is broad-based will determine the weight the Department places on it as evidence. If broad-based commercial entry involving all three entry paths has not occurred, the Department will examine competitive conditions to see whether significant barriers continue to impede the growth of competition and whether benchmarks to prevent backsliding have been established. Wherever practical, this examination

² This open market standard is explained more fully in Application of SBC Communications, Inc. et al., Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region InterLATA Services in the State of Oklahoma, Evaluation of the United States Department of Justice, CC Docket No. 97-121, at vi-vii and 36-51 (May 16, 1997) ("DOJ Oklahoma Evaluation") and in the Affidavit of Marius Schwartz ("Schwartz Aff."), attached to the instant Evaluation as Exhibit 1. Other aspects of the Department's criteria for evaluating applications under section 271 are addressed in the DOJ Oklahoma Evaluation and in Application of Ameritech Michigan Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region, InterLATA Services in the State of Michigan, Evaluation of the United States Department of Justice, CC Docket No. 97-137 (June 25, 1997) ("DOJ Michigan Evaluation").

will focus on the history of actual commercial entry. The experience of competitors seeking to enter a market can provide highly probative evidence concerning barriers to entry, or the absence thereof. However, we do not regard competitors' small market shares, or even the absence of entry, standing alone, as conclusive evidence that a market remains closed to competition, or as a basis for denying an application under section 271. For a variety of reasons, potential competitors may not immediately seek to use all entry paths in all states, even if the barriers to doing so have been removed, and a BOC's entry into interLATA services should not be delayed because of the business strategies of its competitors.

At this time, BellSouth faces no significant competition in local exchange services in South Carolina. Lacking this best evidence that the local market has been opened to competition, the Department cannot conclude that our competition standard is satisfied unless BellSouth proves that significant barriers are not impeding the growth of competition in South Carolina. That it has failed to do. Although BellSouth asserts that it has met the checklist and public interest requirements of section 271, but that assertion rests in large measure on BellSouth's view as to the nature of those requirements -- a view that is often at odds with the plain language of the statute and with the Commission's prior decisions, as well as the 1996 Act's underlying competition policy on which the DOJ bases its evaluation. While we believe that BellSouth has made important progress towards fulfilling its responsibilities under the Telecommunications Act to open its local markets to competition, the evidence available in the present application falls well short of demonstrating compliance with several critical prerequisites for approval. In particular,

BellSouth:

- Has failed to demonstrate that it offers access to unbundled network elements “in a manner that allows requesting carriers to combine such elements in order to provide . . . telecommunications service,” as required by the 1996 Act. 47 U.S.C. §251(c)(3).
- Has failed to demonstrate its ability to provide adequate, nondiscriminatory access to the operations support systems that will be critical to competitors’ ability to obtain and use unbundled elements and resold services.
- Has failed to demonstrate that it offers cost-based prices for unbundled network elements that permit entry and effective competition by efficient competitors.
- Has failed to measure and report all of the indicators of wholesale performance that are needed to demonstrate that it is currently providing adequate access and interconnection and to ensure that acceptable levels of performance will continue after section 271 authority is granted.

We discuss each of these deficiencies below, after addressing the threshold question of BellSouth’s eligibility to apply under either Track A or Track B.

I. The Department Is Unable to Determine BellSouth’s Eligibility to Use Track B Because the Record at This Stage of the Proceeding Is Ambiguous and Incomplete

Section 271(c)(1) of the 1996 Act requires the BOC seeking in-region interLATA authority to meet the requirements of either subparagraph (A) (“Track A”) or subparagraph (B) (“Track B”). BellSouth contends that its 271 application should proceed under Track B, but also

asserts in the alternative that it may satisfy Track A. The Department is not able to determine BellSouth's eligibility to proceed under Track B because the record contains little evidence on a key factual question necessary for such a determination. The additional information submitted in Reply Comments in this proceeding will permit the FCC to make a more informed judgment on this question. We conclude that BellSouth is not eligible to proceed under Track A.

A. It Is Not Clear Whether BellSouth Has Received a "Qualifying Request" for Access and Interconnection

Section 271(c)(1)(B) of the 1996 Act allows a BOC to seek entry under Track B if, among other things, it has not received a qualifying request for "the access and interconnection described in [section 271(c)(1)(A)]."³ A "qualifying request," *i.e.*, a request that would preclude

³ Another prerequisite for a Track B application is that the BOC's Statement of Generally Available Terms and Conditions ("SGAT") has been approved or permitted to take effect by the applicable state regulatory commission. As BellSouth notes in its application, the Public Service Commission of South Carolina ("SCPSC") approved, with modifications, BellSouth's initial SGAT on July 20, 1997, and issued its written order on July 31, 1997. Public Service Commission of South Carolina, In re Entry of BellSouth Telecommunications, Inc., into InterLATA Toll Market, Docket No. 97-101-C, Order Addressing Statement and Compliance with Section 271 of the Telecommunications Act of 1996, Order No. 97-640 (July 31, 1997) ("SCPSC Order"). The SGAT accompanying BellSouth's application reflects further modifications and was approved by the SCPSC on September 9, 1997. The SGAT approved for purposes of BellSouth's South Carolina section 271 application was received by the SCPSC on Sept. 19, 1997. AT&T has appealed the SCPSC Order, but has not sought a stay of that decision. See AT&T Communications of the Southern States, Inc. v. BellSouth Telecommunications, Inc., No. 3:97-2388-17 (D.S.C. filed Aug. 8, 1997). Given the status of that appeal, we do not dispute that BellSouth has satisfied the approved SGAT requirement of section 271(c)(1)(B).

Section 271(c)(1)(B) also provides two exceptions that would permit a BOC to proceed under Track B despite having received what would otherwise constitute a "qualifying request"-- if a state commission certifies that the prospective competing providers making such requests "(i) failed to negotiate in good faith ..., or (ii) violated the terms of an agreement ... [by failing] to comply, within a reasonable period of time, with the implementation schedule contained in such agreement." 47 U.S.C. §271(c)(1)(B). No CLECs have been so certified by the SCPSC, and,

an application under Track B, is a “request for negotiation to obtain access and interconnection that, if implemented, would satisfy the requirements of section 271(c)(1)(A).”⁴ A “qualifying request” must be from an “unaffiliated competing provider that seeks to provide the type of telephone exchange service described in section 271(c)(1)(A).”⁵ In other words, the requesting carrier must intend to provide telephone exchange service to residential and business customers exclusively over its own facilities or predominantly over its own facilities in combination with the resale of another carrier’s services. That request, however, “need not be made by an operational competing provider ... [but] may be submitted by a potential provider of telephone exchange service to residential and business subscribers.”⁶ In order to be a “qualifying request,” the request must have been made at least three months prior to the BOC’s application for interLATA authority.⁷ Since BellSouth filed this application on September 30, 1997, an otherwise qualifying

therefore, these exceptions do not provide a basis for a Track B application by BellSouth.

⁴ In re Application by SBC Communications Inc., Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Oklahoma, Memorandum Opinion and Order, ¶ 27, 12 FCC Rcd 8685 (1997) (“Oklahoma Order”).

⁵ Id.

⁶ Id. BellSouth asserts that the FCC’s position on this point is incorrect and asserts that Track B is foreclosed only if the BOC has received a request from a qualifying competing provider that actually meets the criteria of Track A. The Department disagrees with BellSouth’s interpretation of the 1996 Act and concurs with the Commission’s position.

⁷ 47 U.S.C. §271(c)(1)(B): “A Bell operating company meets the requirements of this subparagraph if, after 10 months after February 8, 1996, no such provider has requested the access and interconnection described in subparagraph (A) before the date which is 3 months before the date the company makes its application under subsection (d)(1) of this section”

request is timely if made on or before June 30, 1997.

The Commission has recognized that the requirements of Track B will sometimes require a “difficult predictive judgment to determine whether a potential competitor’s request will lead to the type of telephone exchange service described in section 271(c)(1)(a).”⁸ Such a predictive judgment is required here with respect to ITC DeltaCom, Inc. (“DeltaCom”).

DeltaCom is a regional carrier which provides long distance, access, and several other telecommunications services over its fiber-optic network in ten southeastern states, including South Carolina. In September 1996, DeltaCom applied to the SCPSC for certification to provide alternative local exchange telecommunications services in South Carolina and by January 1997 was certified. In March 1997, DeltaCom signed a negotiated interconnection agreement with BellSouth, that the SCPSC then approved in early April.⁹ In the second quarter of 1997, DeltaCom announced its intention to offer local exchange service throughout its service area, including South Carolina. Moses Aff. ¶ 21. In August 1997, the SCPSC approved DeltaCom’s tariff for both business and residential local exchange service offerings.¹⁰ DeltaCom’s affidavit in this proceeding states that it “has been financially committed to provide wire-line residential and

⁸ Oklahoma Order ¶ 57.

⁹ Affidavit of Steven D. Moses on Behalf of ITC DeltaCom, Inc. ¶ 21 (“Moses Aff.”), attached to Comments of the Association for Local Telecommunications Services, CC Docket No. 97-208 (Oct. 20, 1997) (“ALTS Comments”).

¹⁰ Affidavit of Gary M. Wright ¶ 21 (“Wright Aff.”), attached to Brief in Support of Application by BellSouth for Provision of In-Region, InterLATA Services in South Carolina, CC Docket No. 97-208 (Sept. 30, 1997) (“BellSouth Brief”), as Appendix A-Volume 5, Tab 16.

business local exchange services throughout the State of South Carolina, and has been engaged in reasonable efforts to do so for some time. In addition ... although DeltaCom does not provide residential facilities-based services in South Carolina to date, it intends to do so under its South Carolina business plan”¹¹ DeltaCom provides additional information relating to its South Carolina business plans in a confidential exhibit attached to the Moses Affidavit filed with the Commission.

The record indicates that DeltaCom requested access and interconnection within the time period relevant for Track B¹² and that it is taking reasonable steps towards providing telephone exchange service in South Carolina, exclusively or predominantly using its own facilities. DeltaCom has an approved interconnection agreement, is certified as a CLEC, has substantial telecommunication facilities in place in South Carolina, and has an effective tariff for both residential and business local exchange services.¹³ There is very little evidence, however, concerning DeltaCom’s plans or efforts to provide “*residential* and business” service, as is required if DeltaCom’s request is to be considered a “qualifying request.” DeltaCom provides little beyond its statement that it intends to offer residential service, and its statement is silent as to

¹¹ Moses Aff. ¶ 22.

¹² Neither DeltaCom nor BellSouth indicates when DeltaCom initially made its request for access and interconnection from BellSouth for South Carolina, but it is reasonable to assume that such request took place prior to its March, 1997 interconnection agreement with BellSouth, and hence prior to the June 30, 1997 cut-off date for “qualifying requests.”

¹³ See DeltaCom Confidential Exhibit ¶¶ 1-3.

when it intends to do so.¹⁴

The Commission has indicated that in evaluating whether a request is a "qualifying request" it may consider whether the requester "is taking reasonable steps toward implementing its request in a fashion that will satisfy section 271(c)(1)(A)."¹⁵ Such an inquiry is appropriate, and indeed is implicit in the Commission's conclusion that a qualifying request must be from a carrier "that seeks to provide the type of telephone exchange service described in section

¹⁴ In a recent SEC filing, DeltaCom has indicated that it intends to provide business service but has made no mention of its residential service plans. Amendment No. 3 to Form S-1 Registration Statement Under the Securities Act of 1933, ITC \ DeltaCom, at 3 (Oct. 22, 1997).

Several carriers in addition to DeltaCom claim they have submitted "qualifying" requests, but the statements of these other carriers appear to be even more ambiguous than DeltaCom's statements with respect to the provision of exclusively or predominantly facilities-based service, and whether and when service will be provided to residential customers. ACSI states that it "will provide facilities-based service to residential callers through multi-tenant dwelling units ("MDUs") and shared tenant service ("STS") providers where it makes economic sense." Affidavit of James C. Falvey ¶ 11 ("Falvey Aff."), attached to Opposition of ACSI, CC Docket No. 97-208 (Oct. 20, 1997) ("ACSI Opposition"), as Appendix A, Exhibit 1. AT&T states an "intention to serve residential and business customers throughout the region using unbundled network elements, resale, and interconnection" -- but not clearly indicating whether its service would be predominantly facilities-based -- and states that implementation of its request would have "enabled AT&T" to provide the service described in section 271(c)(1)(A). Comments of AT&T Corp. in Opposition to BellSouth's Section 271 Application for South Carolina, CC Docket No. 97-208, at 50 (Oct. 20, 1997) ("AT&T Comments"). While MCI intends to provide local telecommunications services to both business and residential customers through its own switches and other facilities, MCI has stated that it will not "expand into the other states in BellSouth's region" until BellSouth has complied with the 1996 Act's requirements in Georgia. Declaration of Marcel Henry on Behalf of MCI Telecommunications Corporation, attached to Comments of MCI Telecommunications Corporation, CC Docket No. 97-208, ¶ 15 (Oct. 20, 1997) ("MCI Comments"). Additional information in Reply Comments may also clarify whether and when these carriers seek to provide the types of service required under Track A.

¹⁵ Oklahoma Order ¶ 58.

271(c)(1)(A).”¹⁶ It would be difficult to conclude that a carrier “seeks to provide” service if it is not taking reasonable steps to do so. Moreover, such a conclusion would not be warranted unless the requesting carrier intends to provide such service within a specified and reasonable time frame, against which the carrier’s reasonable steps may be evaluated. Absent requirements of this kind, a BOC’s ability to use Track B could be foreclosed indefinitely by the inaction of its competitors, contrary to the purpose of Track B.¹⁷

As noted above, there is very little evidence before the Commission at this time on which to evaluate DeltaCom’s intentions and efforts to provide residential service. Nor is there any evidence on these issues in the state proceedings. The SCPSC refused to consider whether BellSouth was eligible to proceed under Track A or Track B, concluding that such questions “should be deferred to the FCC, since Federal law is involved in this issue.”¹⁸ In a subsequent order addressing BellSouth’s compliance with section 271, the SCPSC offered a “Review of Competition in South Carolina” in which it concluded that “none of BST’s potential competitors are taking any reasonable steps towards implementing any business plan for facilities-based local competition for business and residential customers in South Carolina.”¹⁹ However, this

¹⁶ Oklahoma Order ¶ 27.

¹⁷ Oklahoma Order ¶¶ 54-56.

¹⁸ Public Service Commission of South Carolina, In re Entry of BellSouth Telecommunications, Inc. into InterLATA Toll Market, Order Denying Petition For Rehearing or Reconsideration, Docket No. 97-101-C, Order No. 97-575, at 1 (July 7, 1997), attached to this Evaluation as Exhibit 4.

¹⁹ SCPSC Order at 19.

conclusion is of limited value in assessing whether DeltaCom submitted a “qualifying request” since the SCPSC did not expressly address Track B issues²⁰ and because DeltaCom’s statements concerning its plans to provide business and residential service in South Carolina were not in the record before the SCPSC. Moreover, since these issues were not considered in the state proceedings, DeltaCom’s statements concerning its plans to provide residential service were first made available to BellSouth when DeltaCom submitted its affidavit in this proceeding. Thus, the record available to the Department at this time does not include any response from BellSouth to this affidavit.²¹

Because the present record on this critical issue is so sparse, the Department is unable to determine whether DeltaCom has submitted a “qualifying request,” and therefore whether BellSouth is foreclosed from applying under Track B. The Commission will be in a better

²⁰ The SCPSC’s conclusion is also of limited value in assessing whether AT&T or MCI have submitted “qualifying requests” since the SCPSC does not indicate, in reaching its conclusion, whether it regarded competitors which used unbundled network elements obtained from BellSouth to be using their “own” facilities. The FCC decided that unbundled elements obtained from a BOC would be regarded as a competing carrier’s own facilities for purposes of assessing Track A and Track B issues after the SCPSC Order. See In re Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Michigan, Memorandum Opinion and Order, CC Docket No. 97-137, FCC 97-298, ¶ 101 (“Michigan Order”).

²¹ Because evidence that has been submitted to the FCC but not to the relevant state commission does not give the Department an opportunity to assess other parties’ responses to that evidence and is not subject to cross-examination, as is often the case in state commission proceedings, such evidence often will be less persuasive to the Department than evidence which was first presented to the state commission. Because of the important role of state commissions in the section 271 process, we strongly encourage all interested parties to participate fully in state 271 proceedings, and urge the Commission to take any appropriate steps to encourage such participation.

position to assess this issue after receiving Reply Comments from BellSouth and other parties, which may provide additional information on this important issue.

B. The Requirements for a Track A Application Have Not Been Satisfied

BellSouth asserts in the alternative that it may be eligible to apply under Track A, which requires a demonstration that the BOC "is providing access and interconnection," pursuant to binding agreements approved under section 252, to "one or more unaffiliated competing providers of telephone exchange service ... to residential and business subscribers." Moreover, the competing providers must be providing local exchange service "exclusively" or "predominantly over their own telephone exchange service facilities."²²

BellSouth acknowledges that it is unaware of any facilities-based providers that would satisfy the requirements of Track A but asks the Commission to conduct an inquiry into the status of such competition in South Carolina. There is no evidence in BellSouth's application -- or elsewhere in the record -- of the existence of such an operational provider in South Carolina at this time. Therefore, the requirements of Track A have not been satisfied.

II. BellSouth Has Failed to Demonstrate That It Is Offering Access and Interconnection That Satisfy the Checklist Requirements

Even if the Commission concludes that BellSouth may proceed under Track B, it should deny this application. BellSouth has not demonstrated that it is offering access and interconnection that satisfy critical requirements of the competitive checklist that are needed to

²² 47 U.S.C. §271(c)(1)(A).

fully open South Carolina's markets to competition.²³

A. BellSouth Must Demonstrate That Each Checklist Item Is Legally and Practically Available to Competitors

Under Track B, as well as under Track A, an applicant is required to show that each checklist item is available both as a legal matter and as a practical matter.²⁴ These requirements are clearly suggested by the statutory reference to "statements of generally available terms." This language indicates that checklist items must be *generally* offered to all interested carriers, be genuinely *available*, and be offered at concrete *terms*. A mere paper promise to provide a checklist item, or an invitation to negotiate, would not be a sufficient basis for the Commission to conclude that a BOC "is generally offering" all checklist items.²⁵ Nor would such paper promises provide any basis for the Department to conclude that the market had been fully opened to competition. Even in Track B states, where there has been no request for access and

²³ We express no view as to BellSouth's compliance or non-compliance with checklist requirements that are not specifically addressed in this Evaluation.

²⁴ Although we disagree with BellSouth's assertion that it has satisfied this standard in South Carolina, we do not understand BellSouth to disagree that this is the standard it is legally obligated to meet. *See, e.g.*, BellSouth Brief at 17 (all checklist items are "ready and waiting"); 19 (checklist items are available today); 33 (checklist satisfied by virtue of "legally binding offerings of its Statement and BellSouth's extensive, successful efforts to make the required items available in practice").

²⁵ The Commission has previously decided that the statutory distinction between "providing" (under Track A) and "offering" (under Track B) does not suggest a distinction in the meaning of those terms, but reflects merely the distinction between situations where a BOC "furnishes or makes . . . available pursuant to state-approved interconnection agreements" and situations where the BOC "makes . . . available pursuant to a statement of generally available terms." Michigan Order ¶ 114.

interconnection to a facilities-based provider seeking to provide residential service, the legal and practical availability of all checklist items will be important to competition, since competitors may need such access and interconnection in the future, as well as to compete now to provide resale service, and service of all kinds to business customers.²⁶

B. The FCC May Rely on the Conclusions of State Commissions and the Department of Justice in Making Its Determinations

In making determinations regarding checklist compliance, the Commission of course must consider the evidence presented by the applicant and other parties. In addition, the 1996 Act requires that, before making any determination under section 271(d), the Commission shall consult with the commission of the state that is the subject of the application “in order to verify the [BOC’s] compliance” with the checklist requirements. 47 U.S.C. §271(d)(2)(B). It also requires the Commission to consult with the Attorney General, and to give “substantial weight” to the Attorney General’s evaluation of an application. 47 U.S.C. §271(d)(2)(A). Notwithstanding these consultation requirements, under the plain language of the 1996 Act, *the Commission* must determine checklist compliance; it “shall not approve . . . an application . . . unless *it* finds”²⁷ checklist compliance, in addition to compliance with section 272 requirements and the public

²⁶ The importance in general of ensuring that the necessary arrangements for local competition are in place before section 271 entry has been granted underscores the importance of scrutinizing an SGAT carefully to ensure that all significant issues are clearly resolved before a BOC can receive section 271 entry under Track B, because, post-entry, a BOC would clearly have an increased incentive to delay compliance by prolonging both (1) negotiations with competitors, and (2) the implementation of any necessary measures that would enable competition to take root. See, e.g., Schwartz Aff. at ¶¶ 9-24, 155-156, 180-190.

²⁷ 47 U.S.C. §271(d)(3) (emphasis added).

interest standard.

While the Commission must make its own findings on all section 271 issues, a state commission's evaluation of BOC compliance with the checklist may provide valuable assistance to the Commission in the section 271 process. Indeed, to the extent the state commission (1) has applied the proper legal standards, consistent with the 1996 Act and any applicable Commission regulations, and (2) has made reasoned decisions based on an adequate record, the Commission may properly rely on a state commission's conclusion as a basis for its own determinations concerning checklist compliance.

The Commission also may rely on the conclusions of the Department of Justice as a basis for its own determinations. However, the role of the Department differs from that of the state commissions in three respects. First, a state commission may limit its assessment of checklist compliance to evidence of conditions within its state. However, some checklist determinations -- such as determinations on OSS issues, where each of the BOCs generally has deployed a single region-wide system -- may as a practical matter require determinations that affect states throughout a BOC's entire region. In considering such issues, the Commission may confront situations in which one state concludes that a BOC's OSS arrangements comply with the checklist, while another state examining the same arrangements finds checklist deficiencies. The Department will apply a uniform standard for all states in a BOC's region, and a uniform standard that applies to all BOCs. Second, the 1996 Act requires the Commission to consult with states only on issues of checklist compliance; the obligation to consult with the Department is not

limited in this manner. Third, the 1996 Act does not require the Commission to give special weight to state commission views, but requires the Commission to give "substantial weight" to the evaluation of the Attorney General.

C. BellSouth Has Not Demonstrated That It Is Providing Access to Network Elements in a Manner That Allows Requesting Carriers to Combine Them

Section 251(c)(3) requires incumbent LECs to provide unbundled network elements "in a manner that allows requesting carriers to combine such elements in order to provide ... telecommunications service." BellSouth has failed to show that it is offering or providing access to unbundled elements in accordance with this requirement.²⁸ Its interconnection agreements and its SGAT fail to state adequately the terms and conditions under which BellSouth will provide unbundled elements so that they may be combined, and BellSouth has also failed to demonstrate that it has the practical ability to provide unbundled elements to requesting carriers with satisfactory performance in commercial quantities.

²⁸ 47 U.S.C. §271(c)(2)(B)(ii) sets forth the general requirement that the BOC's access and interconnection agreements or statement of terms include "[n]ondiscriminatory access to network elements in accordance with the requirements of sections 251(c)(3) and 252(d)(1)." In addition, the competitive checklist specifically requires the provision of "[l]ocal loop transmission from the central office to the customer's premises, unbundled from local switching or other services" (47 U.S.C. §271(c)(2)(B)(iv)), "[l]ocal transport from the trunk side of a wireline local exchange carrier switch unbundled from switching or other services" (47 U.S.C. §271(c)(2)(B)(v)), "[l]ocal switching unbundled from transport, local loop transmission, or other services" (47 U.S.C. §271(c)(2)(B)(vi)), and "[n]ondiscriminatory access to databases and associated signaling necessary for call routing and completion" (47 U.S.C. §271(c)(2)(B)(x)).

1. The SCPSC Has Made No Specific Findings as to Whether BellSouth Is Offering Unbundled Network Elements in a Manner That Allows Them to Be Combined

In Iowa Utilities Board v. FCC, 120 F.3d 753 (8th Cir. 1997) ("Iowa Utilities Board"), the Eighth Circuit upheld many of the Commission's regulations defining and mandating access to unbundled network elements, and rejected many of the arguments against those regulations that would have limited the ability of competing carriers to use combinations of network elements.

The Court held that the Commission properly defined network elements to include more than the "physical components of an incumbent LEC's network that are directly involved in transmitting a phone call from one person to another," specifically noting that elements could include "the technology and information used to facilitate ordering, billing, and maintenance of phone service," even if some of those elements might also be characterized as "services." Id. at 808.

The Court also held that "a competing carrier may obtain the ability to provide telecommunications services entirely through an incumbent LEC's unbundled elements." Id. at 814 (emphasis added). It therefore rejected the arguments of incumbent LECs that competing carriers should be required to use facilities of their own, in addition to whatever unbundled elements they obtained from incumbents, to offer "finished services." Id.

The Court, however, invalidated the Commission's rules which required incumbents to combine network elements at the request of competing carriers, id. at 813, and, in the order on rehearing, section 51.315(b) of the Commission's rules, which prohibited the separation of

existing combinations of elements. Iowa Utilities Board v. FCC, No. 96-3321, Order On Petitions For Rehearing, 1997 WL 658718, at *2 (8th Cir. Oct. 14, 1997). In doing so, however, it recognized the explicit statutory requirement that unbundled elements be provided in a manner that allows requesting carriers to combine such elements, noting that "the fact that the incumbent LECs object to this rule indicates to us that they would rather allow entrants access to their networks than have to rebundle the unbundled elements for them." Iowa Utilities Board, 120 F.3d at 813.

Prior to the Iowa Utilities Board decision, BellSouth and the SCPSC had taken the position that new entrants could not order unbundled network elements which when combined would permit them to offer services duplicating BellSouth's retail services. BellSouth's initial South Carolina SGAT and interconnection agreements provided that BellSouth would provision and bill requests for combinations of network elements as resale orders. Because this initial SGAT did not permit competitors to combine network elements to provide finished services, there was no basis for presenting evidence -- either in the hearings leading up to the approval of the initial SGAT or in the SCPSC arbitration proceedings -- concerning the manner in which BellSouth would provide separated network elements so that entrants could combine them, or whether BellSouth had the practical ability to do so.

After the Iowa Utilities Board decision, BellSouth submitted and the SCPSC approved a revised South Carolina SGAT on which BellSouth relies for this section 271 application. No additional hearings were held on this revised SGAT, and the SCPSC order approving the revised

SGAT contains no discussion or specific findings that its provisions would allow requesting carriers to combine network elements in a reasonable and nondiscriminatory manner. BellSouth addresses the provision of unbundled elements in a manner that permits them to be combined in section II.F. of this revised SGAT, which states:

CLEC-Combined Network Elements

1. CLEC Combination of Network Elements. CLECs may combine BellSouth network elements in any manner to provide telecommunications services. BellSouth will physically deliver unbundled network elements where reasonably possible, e.g., unbundled loops to CLEC collocation spaces, as part of the network element offering at no additional charge. Additional services desired by CLECs to assist in their combining or operating BellSouth unbundled network elements are available as negotiated.
2. Software Modifications. Software modifications, e.g., switch translations, necessary for the proper functioning of CLEC-combined BellSouth unbundled network elements are provided as part of the network element offering at no additional charge. Additional software modifications requested by CLECs for new features or services may be obtained through the bona fide request process.²⁹

As we explain below, this offering does not satisfy the checklist requirements regarding unbundled elements.

2. BellSouth Has Not Demonstrated That It Is Offering Unbundled Elements in a Manner That Would Permit Requesting Carriers to Combine Them to Provide Telecommunications Services

BellSouth's South Carolina revised SGAT is legally insufficient, because it fails to describe whether or how BellSouth will provide unbundled elements in a manner that will allow

²⁹ South Carolina Public Service Commission, BellSouth Telecommunications, Inc.'s Statement of Generally Available Terms and Conditions, In the Matter of Entry of BellSouth Telecommunications, Inc. into InterLATA Toll Market, Docket No. 97-101-C, at II.F (Sept. 19, 1997) ("BellSouth SC Revised SGAT"), attached to BellSouth Brief as Appendix B-Volume 1, Tab 1.

them to be combined by requesting carriers. First, the SGAT does not adequately specify *what* BellSouth will provide, the *method* in which it will be provided, or the *terms* on which it will be provided, and therefore there is no basis for a finding that BellSouth is offering “nondiscriminatory access to network elements in accordance with the requirements of sections 251(c)(3) and 252(d)(1)” as the checklist requires.³⁰ Second, BellSouth’s application does not demonstrate that it has the practical capability to provide unbundled elements in a manner that would permit competing carriers to combine them.

a. BellSouth’s SGAT Fails to Set Forth the Necessary Terms and Conditions to Enable Competitors to Combine Unbundled Network Elements

BellSouth’s SGAT states that it “will physically deliver unbundled elements where reasonably possible . . . as part of the network element offering at no additional charge.” BellSouth SC Revised SGAT, at II.F.1. This provision, however, is completely unclear as to which elements are included in this offering. As Iowa Utilities Board recognized, certain unbundled network element -- such as operations support systems -- may be intangible and physically integrated into the telephone network. 120 F.3d at 808-809. For such network elements, as well as certain physical elements such as transport and signaling, it may be claimed that it is not reasonably possible to provide access on a physically-separated basis. Nonetheless, BellSouth’s SGAT fails to specify exactly which elements fall into this category. With respect to these unspecified elements, BellSouth fails to describe how they will be delivered, and whether it

³⁰ 47 U.S.C. §271(c)(2)(B)(ii).